

2017

MONTANA

Economic
Development
Report



“Montana is experiencing steady economic growth benefitting businesses and workers alike. Folks here are producing some of the best wheat and pulse crops in the world, creating cutting-edge optics technologies and making the best waders and fly-rods money can buy.”

— Governor Steve Bullock

3	INTRODUCTION
4	EXECUTIVE SUMMARY
6	KEY RANKINGS INFOGRAPHIC
7	MAIN ST. MONTANA PROJECT UPDATE
9	WORKFORCE
11	OUTDOOR RECREATION & OOR
13	SMALL BUSINESS & ENTREPRENEURSHIP
15	TECHNOLOGY
17	AGRICULTURE
19	TOURISM
21	EXPORTS
24	MANUFACTURING
26	NATURAL RESOURCES
28	HEALTHCARE
30	OUTLOOK





**Dear Governor Bullock,
Legislators and Citizens of Montana,**

I am pleased to report that Montana's economy is strong and growing. Opportunities abound to create a more resilient and robust state economy, and we are fortunate to have diverse businesses, an outstanding workforce and abundant natural resources.

The following report summarizes activity by the Governor's Office of Economic Development in the largest and fastest growing sectors of Montana's economy. In addition to what is featured in this report, this office has assisted hundreds of businesses and entrepreneurs, promoted Montana to hundreds of outside businesses, and worked to ensure workforce development and business infrastructure needs are being met.

It may be accurate, at this time, to say Montana has been discovered. With unprecedented interest from external businesses and workforce in relocating to our state, we have an opportunity to use this interest to drive intentional, thoughtful growth. Historically, Montana has relied on natural resource extraction and agriculture to drive its economy. While those industries remain critically important, Montana is home to a burgeoning group of high-tech businesses, outdoor recreation businesses and tourism businesses. We are host to an expanding clean energy production industry and are adding more value to our agricultural products than ever before.

I'm bullish on Montana and believe that through the leadership of Governor Bullock our state will continue to thrive. With our workforce's can-do attitude, the optimism of our entrepreneurs and unparalleled quality of life, Montana will continue to be an outstanding place to live, work and play.

Respectfully,

Ken Fichtler

Chief Business Development Officer
Governor's Office of Economic Development
State of Montana

The Governor's Office of Economic Development has a three-part strategic plan, summarized as follows:

- **Diversify Montana's economy**
- **Improve small business outcomes**
 - Help startups survive longer
 - Improve exit planning
- **Prepare Montana's workforce for the next 20 years**
 - Prepare for retirement of baby boomers
 - Prepare for job loss from increased automation



2017



MONTANA

Executive Summary



Montana's economy is fundamentally strong and growing. The State's Gross Domestic Product increased year-over-year, as measured from the third quarter of 2016 to the second quarter of 2017, by more than \$47 billion. That is an increase of approximately 1.1% over the same period one year prior. This rate of growth was primarily limited by available workforce. More Montanans were working in 2017 than ever before in our state's history, more investment capital is flowing into Montana than ever before and workers are experiencing some of the fastest income growth in the country.

These are exciting economic times and while the state faces challenges ahead, including a limited workforce, we should view these as opportunities and continue to focus on providing employers and workers tools to train and hire more workers into good-paying jobs.

Statewide unemployment is steady at 4% and several counties have unemployment rates under 3%, indicating essentially all employable talent is working. This is consistent with anecdotal messages from businesses across Montana; many would like to hire more people but cannot find eligible workforce. Therefore, programs like the Montana Registered Apprenticeship program and the partnerships between the private sector, public sector and education system are critical to ensuring Montana businesses have access to a trained and talented pipeline of workers in the future.

Certain industries in Montana were negatively impacted by unusual conditions and uncontrollable circumstances in 2017. Some local tourism and agricultural economies suffered due to an extreme fire season and unprecedented drought conditions. The results were poor growing conditions for dryland crops and dry wildlands, allowing for the rapid spread of fires. Many residents and businesses in the northern part of Montana experienced

substantial revenue reductions for 2017. The State issued disaster declarations and created new state grants to assist impacted residents, though the recovery will likely take some time.

Another challenge several cities in Montana are struggling with is declining housing affordability as median home prices increase to levels outside of the reach of average wage-earning residents. The reason for the increasing home prices is fundamentally a supply and demand problem. These cities are seeing rapid growth of high-wage jobs and substantial interest from retirees looking for good quality of life, access to strong medical care, and a more affordable cost of living than coastal cities. While the growth and outside interest is ultimately good, it's certainly challenging for long term residents who are finding their budgets increasingly inadequate.

The creation of the Office of Outdoor Recreation was an important change to the Governor's Office of Economic Development this year. Governor Bullock created the Office of Outdoor Recreation to give focus and a voice to what is now the largest segment of Montana's economy by consumer spending. As the fourth state in the nation to have established an Office of Outdoor Recreation, Montana is playing a leading role in the ongoing discussions on policy, utilization, and development of our public lands. Montana is tied with Alaska as the state with the highest rate of participation in outdoor recreation in the country. 81% of our friends and neighbors recreate in our wild places every year and it's critically important for this industry to be represented in economic development conversations.

The rest of this report summarizes the state of Montana's economy as of the end of calendar year 2017, broken out by industry. Though some industries will inevitably overlap, we worked to ensure clear separation for the purposes of this report.



#4

**Startup Activity
per Capita**
(Kauffman Foundation)

#2

**Microbreweries
per Capita**
(Brewers Association)

#8

Well Being
(Gallup 2016 Poll)

#1

**Community
Recognition of
Citizens**
(Gallup 2016 Poll)

#11

GDP Growth
(US News & World Report
2017 Best States Report)

#12

Net Migration
(US News & World Report)

#3

**Happiest State
in the Nation**
(Gallup-Healthways)

#1

**Manufacturing
GDP Growth**
(National Association of
Manufacturers)

#4

**Percentage of Adults
with a High School
Degree or Better**
(American Community
Survey 2015)

#3

**Corporate
Headquarters
Tax Rate**
(Tax Foundation)

#6

**Business Tax
Climate**
(Tax Foundation)

#4

**National Wage
Growth**
(Montana Department of
Labor & Industry;
2006 - 2016)



2017



MONTANA

Main Street Project



In 2013, Governor Bullock launched the Main Street Montana Project and convened roundtables across the state. Comprised of business leaders, economic developers, educators, and workers in Montana's largest cities, smaller communities, and from Native American reservations, the Main Street Montana Project developed a statewide "Business Plan" for the first time in Montana's history.

This effort was spearheaded by two Chief Executives from two of Montana's largest homegrown companies, DA Davidson and the Washington Companies. They oversaw the execution of the project and made suggestions as to how the State of Montana could work better with the private sector. This led to a dynamic public private partnership never seen before in Montana and paved the way for expansion of private industry.

Governor Bullock wanted to have insights directly from industry leaders from the most prominent sectors of Montana's economy, which led to the creation of thirteen Key Industry Networks. Those sector-specific committees met multiple times to discuss and make recommendations to the Governor.

The outcome of the project was approximately 300 individual recommendations that fall within Five Pillars that form foundation for intended outcomes.

The first or "planning phase" of the Main Street Montana Project was completed in the second quarter of 2017. The project is now shifting into an implementation phase which seeks to take the recommendations of the Key Industry Networks and execute them through rule changes, the removal of regulations, new focuses for state agencies and legislative action.

Governor Bullock and Lieutenant Governor Cooney have designated the Governor's Office of Economic Development to be the organization that will drive the Main Street Montana Project forward. Many of the recommendations have already been executed and many more are in process. The clear majority are steps that can be taken at the agency level and will have an immediate impact on the businesses which recommended the change. All recommendations have been broken out by responsible state agency and the Governor's Office of Economic Development will be working with those agencies to drive the recommendations to completion.

The Governor's Office of Economic Development has also focused on each of the pillars identified by the project through various initiatives. For example, Choose Montana enhances the state's workforce recruitment and development, and Innovate Montana encourages entrepreneurship and innovation.

THE FIVE PILLARS

- I:** Train and educate tomorrow's workforce;
- II:** Create a climate that attracts, retains, and grows businesses;
- III:** Build upon Montana's economic foundation;
- IV:** Market Montana; and
- V:** Nurture emerging industries and encourage innovation.



2017



MONTANA WORKFORCE



“Through this type of work-based-learning, apprentices are able to earn a paycheck while learning the technical and soft skills employers need to grow their operations. Apprentices who completed their training had average wages of \$59,600 in 2015, nearly \$20,000 more than the statewide average.”

— Montana Labor Day Report, Montana Department of Labor and Industry

Montana's unemployment rate has been steady at 4% or under throughout 2017, below the national average unemployment rate of 4.1%. Montana has remained consistently under the national average for unemployment for the last decade. Today, there are more Montanans working than ever before in our state's history and over half the state's total population is employed. Approximately 505,300 Montanans of the 525,681 people in the Labor Force are employed and approximately 5,000 jobs are estimated to have been added in 2017.

According to the Montana Labor Day Report, Montana is experiencing some of the fastest wage growth in the nation, ranking at #4 overall. With economic growth and low unemployment, Montana's labor market has continued to tighten in 2017. This pressure is expected to be exacerbated as the Baby-Boomer generation continues to retire at a rate faster than they are being replaced.

The Montana Department of Labor and Industry offers several programs to get students into the workforce faster through apprenticeships and other work-based learning opportunities. In the 2017 legislative session, a new tax credit aimed at expanding apprenticeships was passed. This law now provides a tax incentive of \$750/year for businesses with registered apprentices and \$1,500/year if the apprentice is a veteran.

With over 1,000 apprentice-able professions available, the Montana registered apprenticeship program is reducing time to getting new workers into the market by incentivizing employers to provide on-

the-job training. Under Governor Bullock's administration, apprenticeships have increased by 30% since 2013, and almost 90% of apprentices are still working in Montana.

Montana has also excelled at dual enrollment in which high-school students can be simultaneously enrolled in the Montana University System. This program is now graduating students with both a high school diploma and a 2-year certificate at 3-times the national rate, according to the Montana University System. This program is an important one for allowing students to enter the workforce faster, while helping Montana families and students save money on tuition.

These programs, paired with Workforce Training Grants from the Montana Department of Commerce, assist businesses in finding and training their workforce better and faster than ever before.

According to the 2017 Montana Labor Day report, the state does not have enough people in the workforce pipeline currently to fill projected demand for workers. Much of the workforce effort at the Governor's Office of Economic Development has therefore been aimed at attracting several distinct types of people: Montana natives who have left the state to find work, and those who visit Montana as tourists. Specifically, the Choose Montana initiative was created to address the workforce shortage needs of our state by highlighting Montana's quality of life, as well as job and business opportunities.



2017



MONTANA

Outdoor Recreation



With approximately 38 million acres of public land, 170,000 miles of rivers, 3,200 named lakes, and habitat that spans mountain peaks to prairie wilderness, it is no surprise the outdoor recreation sector ranks as the 2nd largest sector of Montana's economy. Including outdoor recreation service providers (such as raft guides and snowmobile rentals), outdoor recreation retail and outdoor gear manufacturing, the industry is large and growing quickly. The unmatched and irreplaceable natural resources that create the Montana lifestyle fuel thriving businesses from all sectors and designate Montana as a premier location for entrepreneurial start-ups as well as personal and business relocation.

The Office of Outdoor Recreation, formed in 2017, is the realization of Montana's vision for outdoor recreation and the powerhouse economy that has grown out of our natural resources and our public lands. This office is necessary to ensure our recreation resources and the businesses working in that space are not just sustained, but continue to thrive for current and future generations. To further the growth of this industry and safeguard the unique interests that enable the industry's success, the Office of Outdoor Recreation provides a centralized point of contact and coordination for the broad constituency that relies on all aspects of public lands and outdoor recreation. The office focuses on advocacy, policy, support, and growing new opportunities within its industry as they pertain to recreation infrastructure, direct industry economic development, infrastructure stewardship and conservation, education and workforce, as well as community health and wellness. This commitment makes Montana an ideal environment for the outdoor recreation industry to innovate, develop, test, manufacture and use the products that lead the industry and elevate an entire economy.

Studies completed in 2017 rank Montana as the leader in outdoor recreation thanks largely to the historically proactive work of state leadership to conserve public land and water for recreational purposes and grow access to these resources. An astounding 95 percent of Montanans say outdoor recreation is important to their quality of life and the state has the highest rate of outdoor recreation participation of any state in the nation. Montana's outdoor spaces are essential to the quality of life that attracts and retains a dynamic and youthful workforce. Recreation provides and powers a thriving and growing economy and these unmatched resources are key to Montana's identity. As a location to do business, Montana provides opportunities that turn entrepreneurs' aspirations and goals into reality. It is home to diverse communities with distinct personalities and convenient amenities and services combined with a uniquely skilled workforce, allowing businesses to create their own destinies. Montana is the state for entrepreneurs who value the outdoor way of life - the Montana way of life.

OUTDOOR RECREATION ECONOMY OF MONTANA

\$7.1

Billion in consumer spending

71,000

Direct jobs

\$2.2

Billion in wages and salaries

\$286

Million in local and state taxes



2017



MONTANA

Small Business & Entrepreneurship



“Montana GDP declines were mostly offset by growth in construction, nondurable goods manufacturing, retail trade, information, finance and insurance, real estate and health care.” — *Billings Gazette*

Montana has been a hotbed of entrepreneurial activity for many years. According to the Small Business Administration, Montana has over 115,000 small businesses – more than one small business for every ten citizens of the state. 12,118 non-profit corporations exist in Montana, giving the state one of the highest densities of non-profits in the US.

Since the Ewing Marion Kauffman foundation began measuring it in 1999, the state of Montana has been ranked 4th or better for rate of entrepreneurship in the United States. For the previous four years (2013-2016), Montana has enjoyed the highest rates of entrepreneurship in the United States. In 2017, while still ranked very highly, Montana’s rate of entrepreneurship dropped a small amount, from 0.50% to 0.43%, yielding a ranking of 4th nationally once again.

The strength of Montana’s economy comes from the diversity of its industries. A case in point is, the downturn of the oil commodities markets that led to a dramatic reduction in oil being produced from the Bakken Shale Formation in eastern Montana and western North Dakota. Unlike many areas that rely exclusively on one rapidly increasing industry, Montana’s workers were met with other job opportunities. According to the Billings Gazette, “Montana GDP declines were mostly offset by growth in construction, nondurable goods manufacturing, retail trade, information, finance and insurance, real estate and health care.”

Montana’s economy was founded on just a few key industries, including agriculture and natural resource development. However, important diversification of the economy has resulted in thriving industries in sectors including tourism,

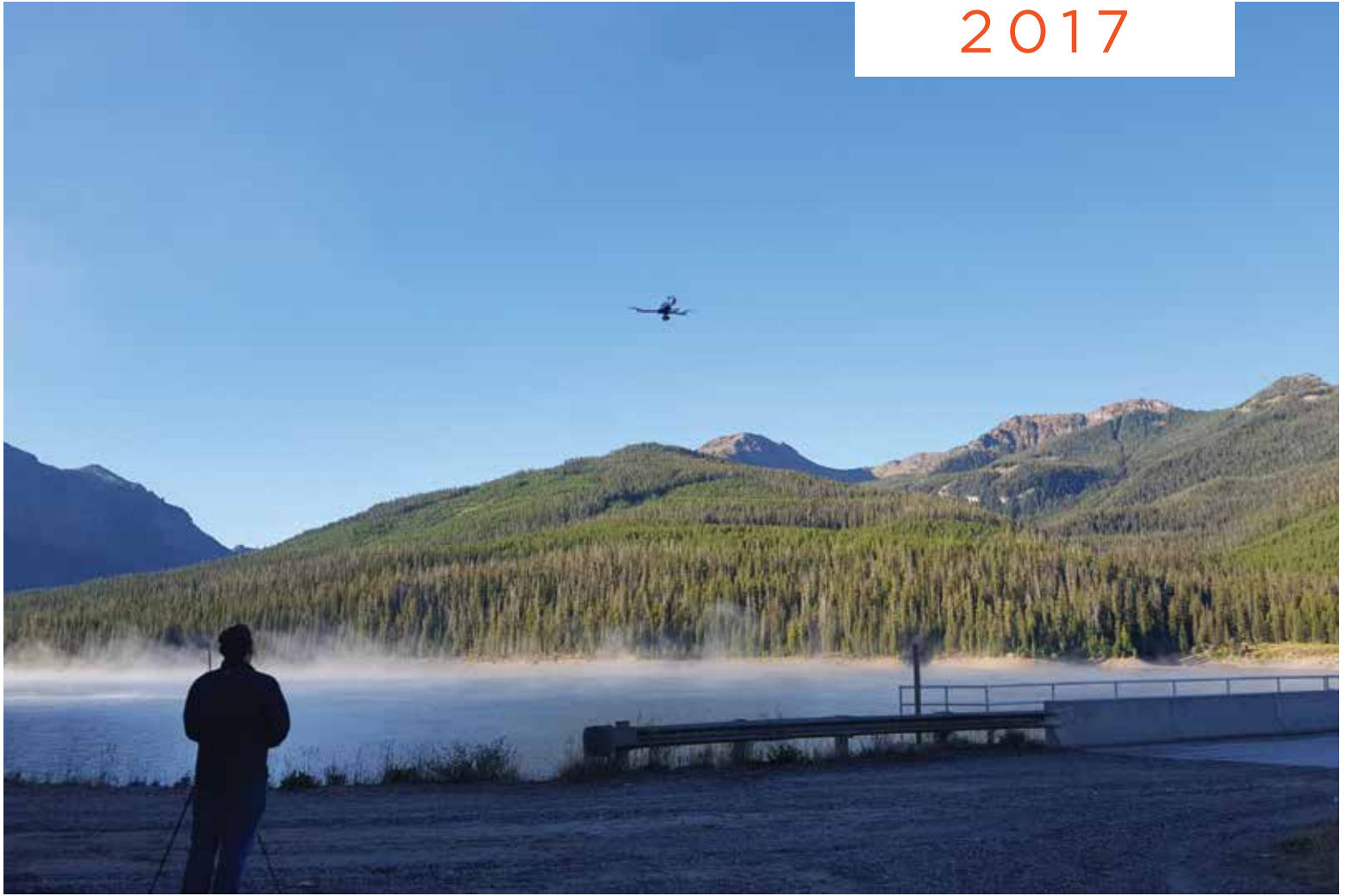
manufacturing and healthcare. There is also growth in a diverse set of emerging industries, including brewing and distilling, outdoor recreation, information technology, datacenters, photonics and optics, financial services, and bioscience. These sectors have given rise to industry clusters, such as, the Montana Bioscience Alliance, Montana Photonics Industry Alliance, and Montana Brewers Association that encourage small businesses work together for mutual benefit.

There are also formal efforts in place to help Montana business owners and employees connect and provide mentorship for new entrepreneurs and existing small business owners looking to grow or exit. Guidance from successful business owners from groups such as, the Montana Ambassadors, Leadership Montana, and the Women’s Foundation of Montana’s successful Powerhouse Montana group, is providing needed expertise to dozens of new and existing businesses today.

As was discussed in the Workforce section of this report, Montana has a large number of baby-boomers who are aging out of the workforce. This is a challenge for business owners, many of whom don’t have an exit or succession plan in place for their business. This planning is critical to ensuring successful transitions of the owners’ legacies but also presents an opportunity for young Montanans who would like to become business owners. The Governor’s Office of Economic Development is actively working with multiple businesses in Montana to help these transitions take place and is working with the Montana Manufacturing Extension Center to deploy their exit planning workshops statewide.



2017



MONTANA

Technology



“The people in Montana have a long history of innovation combined with a world class work ethic. These two factors provide companies like Blackmore with the fabric for building successful, thriving organizations in communities that are both friendly and safe.”

- Randy Reibel, President, Blackmore Sensors and Analytics, Inc.

The technology sector of Montana's economy has dramatically accelerated its growth in recent years. With exceptional talent, both being trained in and recruited to the area, an ever-larger pool of private investment capital and consistently improving direct flight markets, it's never been easier to start and grow a high-tech firm in the state.

Several locations in Montana have been working diligently to achieve the critical mass of talent, companies and capital required for a strong and diverse high-tech ecosystem. As a result, virtually all of the high-tech businesses in Montana are concentrated in just a few metro areas. Bozeman leads the pack, followed by Missoula, with Billings, and Helena appearing to be up and coming high-tech markets. The effort to build a viable ecosystem seems to be having a positive effect on these cities – as evidenced by strong investment interest in other sectors, like housing, restaurants, and hotels.

Private capital, both venture and angel, has found quality deal flow as a result of many years of the market being underserved by investment firms. “2017 was an exciting year as it marked our tenth investment, our completion of Fund I, and our initial close of Fund II,” said Will Price, Founder of Next Frontier Capital. “Since Fund I's launch in April of 2015, we've made strong progress on validating four foundational theses related to our ability to raise Venture Capital, the potential of Montana founders, the quality of venture class investment opportunities

in Montana, and our ability to attract participation from top-tier venture firms.”

The continued growth of the high-tech ecosystem seems to be directly related to increasing direct flights to markets that are more traditional high-tech hubs. Namely, year-round direct flights to San Francisco, New York City and Boston should be aggressively pursued. Other factors include building on the outstanding quality of life in Montana. It's critical to provide affordability, access to public lands and strong downtown cores to attract the talent these firms require.

Not all Montana's high technology is concentrated in information technology. A strong and growing biotechnology cluster in Montana is also driving a more diversified state economy. Montana is home to several dozen biotech companies, notably a GlaxoSmithKline facility, publicly traded Xtant Medical, Mesa Labs who just completed a major expansion, SiteOne Therapeutics, Microbion Corporation and many other early-stage but high-potential startups.

Strong growth in this sector is projected to continue, though workforce will increasingly be a challenge. Firms needing niche talent will likely have to start recruiting outside of Montana to fill positions, though the Montana University System is also rapidly adding programs as demand changes. Two new investment funds—Frontier Angels Fund 3 and Next Frontier Capital Fund 2—will certainly continue to accelerate the ecosystem.



2017



MONTANA

Agriculture



“There are two spiritual dangers in not owning a farm. One is the danger of supposing that breakfast comes from the grocery, and the other that heat comes from the furnace.”

— Aldo Leopold, Author and Conservationist

Montana's agricultural industry continues to be a primary driver of the state's economy with \$4.3 billion in agricultural production in 2016. Calendar year 2017 was a challenge for many agricultural producers in Montana. Low commodities prices combined with drought conditions for much of the summer to create a compounded problem. Low yields and low prices caused small operations to be at substantial financial risk, however Montanans also stepped up to help their friends and neighbors with donations of both money and materials as well as volunteers.

The 2017 Montana Legislature adjourned in May with several pieces of legislation highlighting Montana's top national ranking in pulse crops, in the importance of seed law, producer private property rights and regulatory consistency - adding value to the bottom line for Montana's farmers and ranchers.

Agricultural research and development in Montana keeps producers well informed, with answers to questions on animal health, animal, range and plant sciences, agronomy, horticulture, economics, and natural resource and pest management. With leadership from Montana State University and the University of Montana and participation in basic and applied research conducted by seven Research Centers around the state, Montanans are connected to their industry globally. Innovators matriculating from Montana's colleges and universities are embracing research into genetics, plant and animal science, sustainability, food safety and precision agriculture technologies like advanced connected sensors, optics and drones.

Montana's producers are experienced in trade with the Montana Wheat and Barley Committee and industry groups like the Montana Grain Growers Association and Montana Stockgrowers Association. The latter recently signed a \$300M agreement with China to provide Montana beef over the next three years, beginning in 2018. Perhaps the most notable agricultural development in 2017 however was Friesen Foods' announcement of their intention to build the 3,000 acre Madison Food Park processing facility near Great Falls. This project is in the permitting phase as of the end of calendar year 2017.

KEY STATS

27,400

Montana farms & ranches

59,758,917 acres
Montana farms & ranches

65.8%

Montana land in pasture & range

28.5%

Montana land in cropland

\$2 billion

Value of crop production

\$1.6 billion

Value of livestock production

\$55.9 billion

Total farm & ranch assets

NATIONAL PRODUCTION RANKINGS

- #1 Lentil
- #2 Barley
- #2 Garbanzo Beans
- #2 Dry Edible Peas
- #2 Flaxseed
- #2 Safflower
- #3 Canola
- #3 All Wheat
- #3 Alfalfa Hay
- #3 Honey
- #4 Sugarbeets
- #5 Wool



2017



MONTANA

Tourism



While Glacier and Yellowstone are undoubtedly Montana's premier tourist destinations, Montana continues to diversify its tourism economy into every corner of our great state. Every region has something unique to share with wider world, and different ways to tell the Montana story.

Non-resident visitation to the Montana continued to grow in 2017, adding new dollars to the economy, supporting jobs and reducing state and local taxes for our residents. The Montana Office of Tourism and Business Development (MOTBD) at the Department of Commerce works across regions and industries to market Montana to maximize non-resident spending in every sector.

In 2016, MOTBD commissioned its first market research in a decade, providing actionable data about how to target high-potential visitors. As a result, MOTBD is now partnering with well-known Montana companies like Simms, Mamalode, and Red Ants Pants to broaden its reach and amplify the Montana brand. That group is working with over a dozen Montana-based marketing and content experts for website development, photography, and video production. The ongoing "Montana Moment" video series at VisitMT.com received nearly 89 million views for fiscal year 2017 winter and warm seasons alone.

In addition to marketing campaign work, MOTBD is developing Montana as a destination. It partners with local airports in Billings, Bozeman, Great Falls, and Whitefish to increase access to Montana. In fiscal year 2016, tourism grants invested \$1 million into 19 tourism-related projects in communities across Montana, strengthening the visitor experience and allowing Montana's vibrant and charming small towns to tap into the greater tourism economy.

According to the Institute for Tourism and Recreation Research at the University of Montana, 12.4 million non-residents last year visited Montana, adding \$3 billion to the state's economy, supporting jobs for 47,660 hard-working Montanans, and contributing \$180.7 million to state and local taxes.

Montana's premier tourism destinations, Glacier and Yellowstone National Parks, each continued their trends of record-breaking visitation in 2016 and it is projected 2017 was another banner year. Glacier welcomed 3 million people in 2016, an increase of 24 percent compared to 2015. Yellowstone saw 4.3 million visitors, up nearly 4 percent from the year before. These record levels of visitation reflect a long-term trend of interest in public lands and visitation to domestic landmarks.

According to the Department of Fish, Wildlife, and Parks, the state parks system also set new records for visitation. "Montana State Parks had a record 2.6 million visits in 2016. Statewide visitation is up 7% from 2015. North Central Region (Great Falls) had the highest overall visitation with over 724,600 visits, and Giant Springs State Park had the highest visitation of all state parks with over 428,000 visits—also the highest visitation for a single park over the last 10 years." (Source: 2016 Annual Visitation Report)

89
MILLION

Video views at
VisitMT.com in FY17

12.4
MILLION

Visitors came to
Montana in 2016

2016
Highest visitation
year on record

\$3
BILLION

Amount that tourism
added to the state's
economy in 2016



2017



MONTANA

Exports



“Montana Resources is a leader among exporters in Montana and a great example of a business contributing to the success of our state. I appreciate the opportunity to highlight and thank Montana’s thriving manufacturing industry and export economy.”

— Gov. Steve Bullock

Montana is increasingly relying on exports to grow and diversify the state’s overall economy. Export markets are vitally important, representing 95% of the world’s consumers and 80% of the world’s buying power. Montana companies are finding new markets outside the U.S. are not only good for the bottom line, but the best way to hedge against domestic market slumps, create new jobs, and continuously innovate their products.

The 2016 data (latest available) indicates Montana exported \$1.34 billion in manufactured goods, led by inorganic chemicals, agricultural products, tobacco, and industrial machinery. The top four countries receiving Montana goods were Canada, China, South Korea and Taiwan.

The Montana Department of Commerce’s ‘Export Montana’ Office continues to focus on developing Montana’s burgeoning industries by providing grants and trade show support to companies that are ready to expand into export markets. In 2017, Export Montana organized four Montana-branded pavilions at trade shows in Japan, Germany and the United Kingdom for our Aerospace, Mining Technology and Equipment, Lasers and Photonics and Brewery and Distillery Industries. Additionally, the Montana Department of Commerce provided 207 grants in 2017 to small businesses in Montana to exhibit their products at international trade shows and provide language translation, market research, export training and marketing materials.

The Governor’s Office of Economic Development has provided support for businesses attending trade shows with global-reach, including Photonics West and BIO International, which provide a platform for our Montana photonics and bioscience companies to reach export markets. These efforts have resulted in further development of these industries as they attend trade shows in Germany in 2017, with plans to move into markets in Japan in 2018. Montana has also been a long-standing participant in SelectUSA, a forum for international firms seeking to invest in or expand into US companies and markets. This event has led to greater engagement and increased interest in Montana as a place to do business.

A notable award that was received by a Montana-based

TOP IMPORTERS

Canada, China & South Korea

\$1.34 Billion

Exported goods and commodities in 2016

5,560

Total Montana export-supported jobs related to manufacturing

12,000

Number of US jobs supported by goods exports from Montana.

1,556

Number of Montana businesses selling products overseas

84%

Percentage of Montana exporters classified as small and medium-size companies

68%

Percentage of exports by small and medium-size companies

60%

Percentage of Montana exports go to free trade agreement markets

42%

Rate of growth of Montana exports to free trade agreement markets since 2006

4

Number of Department of Commerce ‘Montana Pavilions’ at international trade shows

207

Number of export assistance grants provided by Montana Department of Commerce



business recently was Bozeman-based Simms Fishing Products' reception of the President's "E" Award for exporting excellence from U.S. Secretary of Commerce Penny Pritzker. Awarded on May 16, 2016 in Washington, D.C. Simms is the first company from Montana to receive the award.

Free Trade Agreements (FTAs) loom large for Montana's exporting businesses, with exports to FTA markets accounting for 60% of Montana exports totaling \$804 million in value. Since 2006, exports from Montana to FTA markets have grown by 42%. Two of Montana's top trading partners, Canada and Korea, are currently subject to free trade agreements (NAFTA and KORUS, respectively), and represent nearly half of the total value of Montana exports. The ongoing solar trade dispute between the US and China has affected the Montana economy, with REC Silicon announcing the layoff of 30 employees at their Butte production facility. While REC Silicon has posted strong Q3 quarterly results for 2017, 23% above the previous quarter, uncertainty abounds in the solar panel industry as the Trump administration contemplates imposing tariffs on panels imported from China. In April, President Trump imposed tariffs of up to 24% on imported softwood timber from Canada, bringing swift change after the expiration of the 10-year Softwood Lumber Agreement (SLA) that expired in October of 2015. This action will likely lead to further negotiations regarding a new SLA, and a return to the bargaining table for US and Canadian timber industry leaders.

In 2015, Governor Bullock led a delegation of Montana businesses to South Korea and Taiwan to develop new business and strengthen commercial and diplomatic ties with two of the state's most significant trading partners through trade, tourism, education and sister-state events. These efforts have paid off in the signing of distribution agreements, increased tourism, and expanded trade between Montana companies and these counties.



2017



MONTANA

Manufacturing



The recent history of Montana manufacturing has been a success story in the making as Montanans increasingly return to their roots as innovators and ‘makers.’ Montana’s manufacturing employment has enjoyed steady growth since the Great Recession, despite closures in several legacy manufacturing industries. Manufacturing employment in the state increased from 16,400 in 2010 to 19,400 in 2016, an increase of 18.3% and 3,000 jobs – and well above the 7.1% increase seen nationwide (2017 State of Montana Manufacturing Report, Montana Manufacturing Extension Center).

Montana has risen from 41st to 32nd among all states in manufacturing GDP and is a significant contributor to recent economic trends in Montana. Overall, manufacturing in Montana added \$3.2 billion to the state’s GDP in 2016, over \$1.2 billion more than the industry’s contribution in 2011. That made Montana the fastest growing state for manufacturing GDP according to the Bureau of Business and Economic Research.

In the simplest terms, Montana’s manufacturers tend to be small, young, rural, entrepreneurial, and pay high wages. Of the 3,364 manufacturers in the state in 2015, 69% of them had fewer than 10 employees, and 50% of them had fewer than 4 employees. Rural counties are home to 68% of Montana manufacturers, and 16% of them have been in business for less than 5 years. The average Montana manufacturing worker earned \$47,227 in 2015, about 17.5 percent higher than the state average of \$40,182 for all workers. The Montana Manufacturing Extension Center, with resources for manufacturers in nearly every industry and corner of the state, has helped over 1,200 manufacturers grow and succeed in 54 of Montana’s 56 counties. This critical office provides exceptional expertise and training programs to hundreds of manufacturing businesses each year.

Refineries, metal fabricators, and food processors have been joined by advanced manufacturing in aerospace, photonics, and industrial equipment to increase the diversification and sophistication of the Montana manufacturing sector. A growing industry in this sector, and a real Montana success story, is the craft beverage industry. Beer, distilled spirits, and wine manufacturing has increased significantly in Montana, growing from 267 workers in 2011 to 711 workers in 2015, an increase of 166%. Although breweries had the most employees, distilleries were the fastest growing. Total beer production has increased 87% from 2010 at a pace of 13% per year, with no signs of slowing.

In summary, since the start of the economic recovery several years ago, Montana manufacturing employment has increased faster than the national rate. This strong performance was despite permanent closures in the wood and paper products industries. New and expanded manufacturing establishments were a major contributor to improved growth.

STATISTICS ABOUT MONTANA’S MANUFACTURING ECOSYSTEM

69%

Have fewer than 10 employees

50%

Have fewer than 4 employees

68%

Are in rural counties

55%

Have been in business less than 20 years

16%

Have been in business less than 5 years.

#1

National ranking of Montana for growth in manufacturing GDP

FROM 2010 TO 2015, MONTANA CRAFT BEER PRODUCTION:

Increased by **87%**

Sales Increased by **111%**

Employment by **204%**

Payrolls by **154%**

BREWERY OPERATIONS ADDITIONAL ECONOMIC BENEFITS

1,044 Additional

Permanent Jobs

\$33 million in personal income

2nd most breweries per capita in the United States



2017



MONTANA

Natural Resources



“I’m looking for realistic and commonsense solutions that work for Montana, expand our economy and protect our clean air and water. States like Montana are the best laboratories for finding the path forward and solving problems while creating opportunities.” — Governor Steve Bullock

Montana’s portfolio of energy and natural resource industries includes coal, oil and gas, mineral and timber resources, as well as legacy generation projects utilizing coal and hydropower and upcoming renewable resource projects utilizing wind, solar and hydropower.

Montana’s coal production for export at the end of calendar year 2017 is more than 2 million tons ahead of 2016. Several coal companies are bullish on coal exports to Asia via the Westshore Terminal in British Columbia. However, the future of Colstrip’s coal fired power generation is very much in question with recent actions by Washington regulators to provide funds intended to signal the end of the facility’s useful life. Two of the four power generation units are slated for closure in 2022 which is putting considerable pressure on the city of Colstrip to diversify its economy. The Colstrip Community Impact Advisory Group, spearheaded by the Governor and Attorney General’s Office, was recently formed to help the community, workers, and families of Colstrip plan for the future. A plan is also underway by Colstrip economic developers to attract industry using assets already in play, such as the transmission lines, and to retrain Colstrip’s workforce into other professions. An investment of \$4.6 million by the Montana Department of Labor and Industry will assist with workforce planning and worker training in the area.

Although the Bakken Oil Fields continue to be largely inactive and active oil and gas wells in Eastern Montana have reduced their activity, several large projects are in the works. The planned Keystone XL pipeline may commence construction in 2018. Denbury Resources has applied to bring an enhanced oil recovery project and pipeline from the Wyoming border to the

Cedar Creek Anticline near Baker. In another important project, the Phillips 66 refinery in Billings undertook a major maintenance and improvement project in 2017 at a cost of several hundred million dollars.

Montana is also home to several current and planned mining operations, including coal, copper, gold and more. Mining has traditionally been an important component of Montana’s economy.

State and federal agencies are using the best available models and technology to address over one million burned acres following the 2017 wildfire season. The Forests in Focus Initiative in Montana and the Federal Burned Area Emergency Response teams are working quickly to salvage burned timber and plant new trees before spring runoff. In a notable timber industry acquisition in 2017, Idaho Forest Group purchased the Tricon Timbers stud mill in St. Regis and aims to invest in the mill with new technology to keep it competitive. The Montana-born success story, SmartLam Technologies Group, will expand their headquarters in 2018 to the former Weyerhaeuser lumber mill in Columbia Falls. SmartLam’s cross-laminated timber product will be produced with state of the art equipment and 75 new employees by the end of 2019.

Montana’s renewable energy is a mix of legacy projects such as the 18 hydroelectric dams in the state and cutting edge renewable technology like wind, grid-scale solar, grid-scale battery storage and more. One important project by Absaroka Energy intends to build a \$1 Billion, 400 MW power storage project called the Gordon Butte Pumped Hydro Storage project near Martinsdale, MT. This development will store renewable power by pumping water uphill then releasing it to generate hydroelectric power as needed. There are 38 wind projects in Montana that are currently in operation, being permitted or under construction, with another 29 projects proposed across the state. In solar energy, MTSUN is a proposed 480-acre \$110M solar farm that is currently negotiating terms and rates to allow their renewable energy project to be developed. In Montana, nearly 1800 homes, businesses, schools, fire stations and farms generate at least a portion of their energy with renewable energy with 15 Montana utilities servicing 1,791 net metering systems.



2017



MONTANA

Healthcare



“Our plan is a call to action with the ultimate goal of quality provision of healthcare for all Montanans, from Billings to Sweet Grass, and Plains to Ekalaka.”

— Kristin Juliar, Director of the Montana Office of Rural Health, Area Health Education Center

When it comes to Montana’s economy, much of the state’s economic progress and the opportunity to reduce costs to the state relies on the physical and mental health of the residents. With a large retired population, that’s more true than ever before and medical treatment in Montana is earning a reputation for regional excellence.

Montana has had stronger gains in numbers of jobs in healthcare than any other industry for the past several years. The healthcare industry alone added 2,150 jobs in 2016 and 7,300 jobs over the last five years. In 2017, the HealthCare Montana Project began the implementation of the collaborative strategy of engagement, education and training, recruitment and retention for the 15 professions and sectors identified. That program is expected to help with the workforce shortages that are being seen in the healthcare industry.

Today, more than 85,000 more Montanans have health insurance coverage through Medicaid expansion thanks to the bi-partisan HELP Act signed into law by Governor Bullock in 2015. This significantly decreased the uninsured rate and has resulted in an estimated \$30 million in savings to the state since January 2016, while improving the health of Montanans and increasing the revenue to the healthcare sector. Medicaid expansion has also helped to provide a lifeline to rural critical access hospitals. These facilities not only provide important care, they also serve as the economic backbone of many small communities.

An interesting trend in Montana, particularly in the Flathead Valley, is the rise of medical tourism. This primarily stems from Canadians who face long wait times for optional or less timely procedures in their home country. Coming to the US, and commonly Kalispell, to have those procedures done is extremely valuable to Montana’s economy and is an area that should be actively promoted.

There were several priorities healthcare identified by the 2017 Montana Legislature and Governor’s Office:

- REACH Air Medical Services will offer in-network services
- The Montana Mental Health Parity Act was signed into law by Governor Bullock to provide equal treatment for physical health, mental health and substance use disorders in insurance plans
- Community Medical Center opens a new hyperbaric oxygen wound treatment facility in Missoula
- St. Vincent Healthcare in Billings sees success with their Child Ready Montana program coordinator and cultural liaison
- MSU researchers are developing improved technology to make diagnosis of malaria and other diseases more accessible
- Access to a life-saving opiate overdose reversal drug is more accessible since a new law was passed
- National recognition of a Billings medical residency program



2017



MONTANA

Outlook



Montanans have many reasons to be optimistic about our economic future. The state has committed to strong environmental and public lands protections that will keep our open spaces wild and beautiful. The workforce that Montana is attracting and retaining as a result of these open spaces and an outstanding quality of life will continue to build businesses and innovate in Montana. Rapidly growing high-technology and manufacturing businesses are adding high-wage jobs and have found Montana to be an optimal place to build companies. For example, outdoor recreation services and gear manufacturing is quickly growing and now represents the largest portion of Montana's economy by consumer spending. Montana's agricultural producers are innovating with non-traditional crops like pulses and looking for ways to add value to their products before shipping them to global markets. Energy and extraction remain important for the state's economy and innovations in making those industries more sustainable are being constantly pursued. Thanks to a fair tax code and low costs of doing business, Montana is attracting substantial interest from outside investors. The Governor's Office of Economic Development is committed to continuing the strong growth trends in Montana's businesses and to ensuring the state's economy stays resilient and diverse.

A population and workforce that is passionate about the place they live seems to lead to a motivation to work hard and succeed professionally.

A substantial portion of the population of Montana tends to be in the state intentionally, which is a substantial departure from most landlocked states. Montana is ranked 12th in the United States for net migration rate (US News and World Report 2017 Best States Report) – a strongly positive indication that the state is an attractive place to live and work. A population and workforce that is passionate about the place they live seems to lead to a motivation to work hard and

succeed professionally. This is evidenced by the leadership position of Montana in entrepreneurship, income growth and manufacturing growth.

When contrasted with the workforce experience businesses have in Montana to other locations, several important factors come to light. First, the work ethic is exceptional – employers consistently report that their workforce has a positive attitude, is highly productive and tend to be independent thinkers. Whereas the workforce of many other states struggle with employee engagement, Montana's workers tend to be highly engaged and loyal, even being ranked #1 in the nation for employee engagement (Gallup Workforce Engagement Report 2015). Furthermore, Montana businesses report that their employees are innovative and flexible in their positions so they can find a way to work through unforeseen hurdles.

Another way that Montana is excelling in building high-technology jobs through workforce is in retention rates. Many markets, particularly those with a high percentage of high-technology employers are seeing a trend of "job-hopping" in their workforce that is leading to significant recruitment costs and the loss of ability, or total inability, to develop deep product and industry knowledge. In Montana by comparison, it's not uncommon for employees (even younger workers) to stay at a company for 3-5 or more years. This is an incredibly important and positive factor for employers to spend large amounts of time and money training workers or expect workers to develop deep knowledge of a complex product.

Some challenges that Montana is likely to face in the coming years include those with both internal and external points of origin. Internal to the state, there is projected to be a shortage of approximately 80,000 workers as baby-boomers retire. While many in state government and industry advocacy groups are very nervous about this projection, it can also be seen as an opportunity. First, it's an opportunity for Montana's younger and middle-aged workers to move into more senior positions. This will provide



upward mobility for many younger workers that see little prospect for advancement in small companies. Second, it's an opportunity for Montana businesses to drive additional efficiency within their operations. This is going to be an important step for businesses as they work to remain competitive in marketplaces that will increasingly face competition from foreign markets and other businesses that are leveraging automation in their operations.

Another internal challenge will be water management. With droughts and large fires becoming more common and longer lasting (source: <https://www.jpl.nasa.gov/news/news.php?feature=6922>), Montana will have to rethink how water is used, recycled and managed to ensure that all users have an adequate supply. From farmers to fishing guides, all Montanans have a stake in the conversation and it will be important to approach the issue proactively.

An external challenge that Montana must prepare for are the changes in the economy that will stem from widespread adoption of artificial intelligence and robotics. Those fields can be loosely lumped together into "automation" – an area that is seeing substantial investment and business startup activity. Many leading consulting and educational organizations believe that the result of automation will be substantial and permanent job loss. A recent

study by McKinsey Global Institute suggests that 375 million workers will lose their jobs to automation by 2030. Another study by Oxford University identified the 700 jobs most at risk of automation and predicted that 47% of US jobs were at risk of being lost to automation. Given the nature of much of the work done in Montana, substantial care and consideration should be paid to these predictions. Fields most at risk of experiencing job loss will include agriculture, mining, energy production, legal work, manufacturing and low-skill computer work, like data-entry. The best way to be ready for automation is to understand how it will impact the jobs we have today and work to educate Montana's workforce into jobs that are less likely to be automated. This is a task that the Governor's Office of Economic Development is actively engaged in.

These threats notwithstanding, Montana has an exceptional and resilient population that will rise above challenges as they are presented and help their neighbors whenever possible. By continuing to be welcoming of diversity in people and businesses, Montana will build on its current multifaceted economy. Through forward looking, proactive and data-drive policy decisions, the State will continue its tradition of quiet leadership in many areas and remain an extraordinary place to live, work and play.



2017



Montana Governor's Office of
ECONOMIC DEVELOPMENT